US EQUITY INVESTORS IN POSITIVE MOOD AS MARKETS WAIT FOR NEXT WEEK'S RATE DECISIONS

This week we saw more of the bad news is good news effect. US equity markets have been part of the general rise in risk assets in recent weeks and the publication of economic data that was worse than expected on Monday gave US equities a leg higher as this seemed to reinforce the view that the US Fed will soon slow its rate hikes. However, markets seem to be looking for the positive as better-than-expected GDP numbers from the US were also welcomed as good news while slightly disappointing earnings updates from Intel and Microsoft failed to dampen the mood.

In the UK the picture is slightly reversed. Economic data shows the UK continuing to slow faster than other developed nations while many of the corporate updates – which this week included struggling industries such as pubs and airlines – were surprisingly upbeat. Although the news was in line with or exceeded expectations, UK equities lagged slightly. Government bonds were a bit weaker but fixed income markets have been relatively calm as investors await next week's interest rate decisions from the Bank of England, Federal Reserve and European Central Bank.

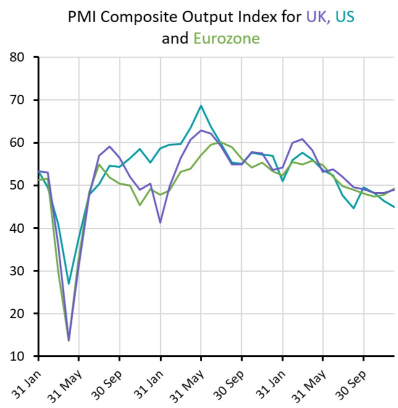
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.12%	+2.21%	+3.05%	+0.53%	+2.92%	+0.00%	-0.06%	-0.32%	+0.28%	+0.00%	-0.11%

GLOBAL: EQUITIES RISE AS INVESTORS WAIT FOR RATE DECISIONS

US economic growth has been more resilient than expected as annual GDP growth slowed slightly to 2.9% for the three months to December. This a slight drop from growth of 3.2% recorded in September. US equities have been on an upward trend and a disappointing update from the US Leading Economic Indicators index plus PMI data showing that US, UK and eurozone output has continued to decline raised hopes that the US Federal Reserve will raise interest rates less aggressively.

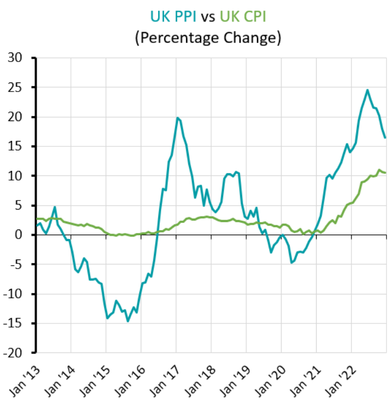
The US Federal Reserve, Bank of England and European Central Bank all have interest rate meetings next week. The ECB has been particularly keen to tell markets it will not be deflected by short-term data releases and markets appear confident that the Fed will be the first to throttle back and then pause its rate hikes. Foreign exchange markets have reflected this sentiment as sterling and the euro have been rising against the dollar.



UK: PRODUCER PRICES SLOWING AS OUTPUT FALLS

The UK's economy continues to slow at a faster rate than other developed countries. The UK's Composite Purchasing Managers' Index shows output fell in January, as a sharp drop in services activity offset a small rise in manufacturing. In comparison the same measure for the US and Europe showed a slight improvement. Although manufacturing recovered slightly it is still contracting and car manufacturing in the UK has fallen to its lowest in more than 50 years.

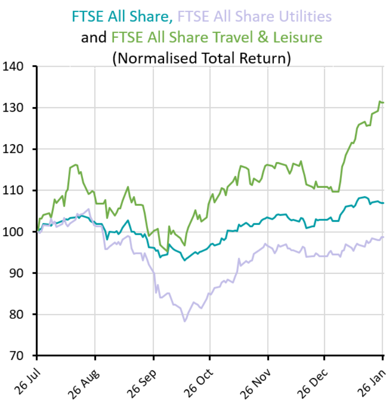
The UK faces a number of strong headwinds. Inflation has been a significant drag over the last 12 months. Although input costs are now slowing quickly, the Producer Prices Index remains at very high levels. One measure of business confidence puts it at its lowest since the financial crisis in 2009 and insolvencies are tipped to rise quickly. Meanwhile, average disposable incomes fell in 2022, even before inflation. The median household disposable income fell by 0.6%, with lower incomes seeing the biggest reduction in spending power.



EQUITIES: OUT OF FAVOUR SECTORS HAVE LED THE RECENT RALLY

Consumer confidence and retail spending remain subdued but many cyclical businesses such as airlines and hospitality are delivering strong trading updates. Pub groups Marston's and JD Wetherspoon reported robust sales over the Christmas period. Fuller, Smith & Turner warned that train strikes had knocked around 5% off its Christmas sales but reported that turnover continues to return to pre-pandemic levels. Drinks makers Diageo and Fevertree also reported resilient sales, although they reported rising production costs and the cost of living will limit growth this year.

EasyJet, Wizz Air and Jet2 reported this week and all said demand been strong in January and that ticket prices are rising. EasyJet expects to return to profit in 2023 and Jet2 said profits would comfortably exceed expectations. High operating costs, particularly energy, continue to act as a drag on profitability but after a tough three years these previously out of favour sectors have outperformed significantly in recent weeks.



Data sourced from FE Analytics and FactSet

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